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Office of the Legislative Auditor

State of Montana

Report to the Legislature

June 1992

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1991

Montana Arts Council

This report contains three recommendations to the council concerning:

- Recovery of indirect costs
- Recording operating budgets
- Coding grant expenditures

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1989 has been issued. Copies of the Single Audit Report can be obtained by contacting:

Office of the Legislative Auditor
Room 135, State Capitol
Helena, MT 59620

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STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
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LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

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DEPUTY LEGISLATIVE AUDITORS:
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Operations and EDP Audit
JAMES GILLETT
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

June 1992

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Arts Council for fiscal years 1989-90 and 1990-91. The report contains recommendations concerning indirect costs, operating budgets and expenditure coding. The council's written response to audit recommendations is included in the back of the audit report.

We thank the director and staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

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Office of the Legislative Auditor

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1991

Montana Arts Council

Members of the audit staff involved in this audit were John Fine, Wayne D. Guazzo, D.J. Kimball, and Catherine L. Scarff.

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Montana Arts Council

		Term Expires
Larry Williams (Chairman)	Great Falls	1995
Henry Badt	Hamilton	1993
Carol Brenden	Scobey	1997
Beth Collier	Shelby	1997
Kathy Doeden	Miles City	1995
John Dudis	Kalispell	1997
Shirley L. Hanson	Havre	1993
James M. Haughey	Billings	1997
Sonia Hoffmann	Helena	1993
Bebe Kezar	Whitefish	1995
James D. Kriley	Missoula	1993
Jack Nickels, Jr.	Fort Peck	1995
Carol Novotne	Fort Harrison	1997
Susan A. Talbot	Missoula	1993
James Whitlock	Hamilton	1995

Administrative Officials

David E. Nelson	Executive Director
Carleen Layne	Assistant Director, Accountant

Summary of Recommendations

This listing below serves as a means of summarizing the recommendations contained in the report, the council's response thereto, and a reference to the supporting comments.

Recommendation #1 — We recommend the council review its indirect cost proposal and recover indirect costs to the maximum extent possible as required by state law. 5

Agency Response: Concur. See page 19.

Recommendation #2 — We recommend the council record its operating plan on SBAS in compliance with state law. 5

Agency Response: Concur. See page 19.

Recommendation #3 — We recommend the council properly record operating expenditures in compliance with state policy. 6

Agency Response: Concur. See page 19.

Introduction

Introduction

We performed a financial-compliance audit of the Montana Arts Council (council) for the two fiscal years ended June 30, 1990 and 1991. The objectives of the audit were to:

1. Determine the council's compliance with applicable laws and regulations.
2. Make recommendations for improvement in the council's management and internal controls.
3. Determine if the council's financial schedules present fairly the results of its operations for each of the two fiscal years ended June 30, 1990 and 1991.
4. Determine implementation status of prior audit recommendations.

The report contains three recommendations to the council. These recommendations address areas where the council can improve compliance with laws and regulations. Other areas of concern deemed not to have a significant effect on the successful operations of the council are not included in this report but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations contained in this report.

Background

The Montana Arts Council was established as a state agency in 1967. The council consists of fifteen members who are appointed by the governor, confirmed by the Senate, and serve a five-year term. The council members are responsible for the governance, management, and control of the agency. The council's duties are to:

1. Encourage the study and presentation of the arts throughout the state.
2. Stimulate public interest and participation in the arts.
3. Cooperate with public and private institutions engaged in cultural and aesthetic activities.

4. Foster public interest in the cultural heritage of Montana and expand the state's cultural resources.

5. Encourage and assist freedom of artistic expression.

The council has three sources of funding: federal grants from the National Endowment for the Arts, investment earnings from the Coal Tax Parks Acquisition Trust Fund and the General Fund. The council receives one-third of the investment earnings from the Coal Tax Parks Acquisition Trust Fund for its Cultural and Aesthetic Program. The legislature determines which organizations will receive grants from the council's coal tax money and the council grants the money as specified by the legislature. During fiscal years 1989-90 and 1990-91, the council reported budgeted expenditures of $1,030,702 and $1,269,779, respectively. During the audit period, the council had eight full-time employees.

Beginning in fiscal year 1991-92, section 15-35-108, MCA, allocates a portion of coal severance tax to the nonexpendable Cultural Trust Fund administered by the council. The law appropriates income from this nonexpendable trust fund for the purpose of protection of works of art in the state capitol and for other cultural and aesthetic projects.

Prior Audit Recommendations

Prior Audit Recommendations

Our office performed the audit of the Montana Arts Council for the two fiscal years ended June 30, 1989. The audit report contained four separate recommendations which are still applicable to the council. The council concurred with, and implemented all four recommendations.

Findings and Recommendations

State Compliance

During our audit, we tested the council's compliance with state laws and regulations applicable to its operations. The following three sections identify situations in which the council should initiate action to improve or document compliance with state laws and regulations.

Indirect Costs

Each fiscal year the council negotiates an indirect cost rate with the federal government. Section 17-3-111, MCA, requires state agencies to negotiate indirect cost rates in accordance with federal regulations and guidelines, and recover indirect costs of federal assistance programs to the fullest extent possible. The council negotiated a provisional indirect cost rate of .9 percent for fiscal year 1989-90.

We reviewed the council's calculation for the fiscal year 1989-90 indirect cost provisional rate and found it did not include costs related to the council's biennial audit. This resulted in the council not recovering indirect costs to the fullest extent possible. For fiscal year 1989-90, the department recovered $3,388 in indirect costs under the provisional rate. If the council had included all allowable indirect costs in its proposal, we estimate the council could have negotiated a rate of 2 percent for fiscal year 1989-90. With this rate, the council could have recovered a total of $8,294 General Fund costs.

Agency personnel said they were unaware that audit costs could be included in the indirect cost proposal. The council should determine its indirect costs related to federal assistance programs and calculate the indirect cost rate to recover all of the council's indirect costs to the extent possible in accordance with state law.

Recommendation #1

We recommend the council review its indirect cost proposal and recover indirect costs to the maximum extent possible as required by state law.

Operating Budget

House Bill 100, Laws of 1989, requires state agencies to record their operating budget or plan and any approved changes on the Statewide Budgeting and Accounting System (SBAS). House Bill 100 also states each operating budget must include expenditures for each program detailed at least by the categories of personal services, operating expenses, equipment, benefits and claims, grants, transfers, and local assistance.

We noted the council did not record its approved operating plans on SBAS in fiscal year 1989-90 and 1990-91. Council personnel said they were not aware of the requirements to do so. Recording the operating budget on SBAS would facilitate management oversight of the council's expenditures throughout the fiscal year.

Recommendation #2

We recommend the council record its operating plan on SBAS in compliance with state law.

Expenditure Coding

The council improperly classified certain expenditures as grants from federal sources or state sources rather than as operating expenditures. As a result, operating expenditures are understated and grants from federal or state sources are overstated by $34,904 and $58,921 in fiscal years 1989-90 and 1990-91, respectively. The following table summarizes the misstatements.

Table 1

Misclassified Expenditures

	FY 1990-91 Over/ (Under)	FY 1989-90 Over/ (Under)
Operating Expenditures		
Other Services	$(15,528)	$ (5,392)
Supplies & Materials	(14,554)	(10,906)
Communications	(8,532)	(4,977)
Travel	(16,932)	(11,707)
Rent	(2,455)	(413)
Repair & Maintenance	(45)	
Other Expenses	(875)	(1,509)
Grants		
From Federal Sources	52,473	34,904
From State Sources	6,448	

Source: Compiled by the Montana Arts Council

State policy defines grant expenditures from federal and state sources as moneys derived from federal and state sources and given to counties, cities, towns, school districts, local agencies, professional societies, etc. to be used or distributed by the recipient entities as specified by the grant agreement. According to state policy, operating expenditures include the costs of consumable commodities or services related to the operations of the various functions of state government. Council personnel said the expenditures related to certain projects were coded as grants instead of operating expenditures because the council considered the projects funded to be in-house grants rather than administrative costs. Since the projects do not involve granting funds to outside entities, the council should use the operating expenditure classification categories for recording these costs.

Recommendation #3

We recommend the council properly record operating expenditures in compliance with state policy.

Independent Auditor's Report & Council Financial Schedules

Summary of Independent Auditor's Report

Summary of Independent Auditor's Report

The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustments. The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance which can be placed on the amounts presented. The unqualified opinion on the financial schedules indicates the schedules are fairly stated in all material respects and the reader can rely on the reasonableness of the information presented on these schedules.

STATE OF MONTANA

Office of the Legislative Auditor

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Operations and EDP Audit
JAMES GILLETT
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Montana Arts Council for each of the two years ending June 30, 1990 and 1991, as shown on pages 10 through 15. The information contained in these schedules is the responsibility of the council's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the council's assets and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Montana Arts Council for the two years ending June 30, 1990 and 1991, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

March 20, 1992

MONTANA ARTS COUNCIL
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1991

	General Fund	Special Revenue Fund
FUND BALANCE: July 1, 1989	$ 0	$ (420,644)[1]
ADDITIONS		
Fiscal Year 1989-90		
Budgeted Revenue		389,344
Support From State of Montana	131,169	
Prior Year Expenditure Adjustments		6,265
Direct Entries to Fund Balance		635,827[1]
Fiscal Year 1990-91		
Budgeted Revenue		427,507
Support From State of Montana	125,429	
Nonbudgeted Revenue	374	
Prior Year Revenue Adjustments		19,322
Direct Entries to Fund Balance		623,510[1]
Total Additions	256,972	2,101,775
REDUCTIONS		
Fiscal Year 1989-90		
Budgeted Expenditures	131,169	899,533
Prior Year Revenue Adjustments		234
Fiscal Year 1990-91		
Budgeted Expenditures	125,803	1,143,976
Prior Year Expenditures		(199)
Total Reductions	256,972	2,043,544
FUND BALANCE: June 30, 1991	$ 0	$ (362,413)[1]

[1]See note 5 on page 14.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 13 through 15.

MONTANA ARTS COUNCIL
SCHEDULE OF BUDGETED REVENUE - ESTIMATE & ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1991

	Grants, Contracts, & Donations	Federal	Total
Fiscal Year 1990-91			
SPECIAL REVENUE FUND			
Estimated Revenue	$ 50,000	$427,002	$477,002
Actual Revenue	44,300	383,207	427,507
Collections Over (Under) Estimate	$ (5,700)	$(43,795)	$(49,495)
Fiscal Year 1989-90			
SPECIAL REVENUE FUND			
Estimated Revenue	$ 50,000	$375,320	$425,320
Actual Revenue	31,232	358,112	389,344
Collections Over (Under) Estimate	$(18,768)	$(17,208)	$(35,976)

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 13 through 15.

MONTANA ARTS COUNCIL
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND
BUDGET AND ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1991

	1991 Promotion of the Arts	1990 Promotion of the Arts
PERSONAL SERVICES		
Salaries	$ 196,139	$ 171,609
Other Compensation	8,350	4,800
Employee Benefits	47,344	39,439
Total	251,833	215,848
OPERATING EXPENSES		
Other Services	113,755	121,894
Supplies & Materials	9,261	14,449
Communications	15,884	16,060
Travel	34,644	28,611
Rent	20,138	18,801
Repair & Maintenance	2,048	3,036
Other Expenses	4,933	4,321
Total	200,663	207,172
EQUIPMENT AND INTANGIBLE ASSETS		
Equipment		3,374
Total		3,374
GRANTS		
From State Sources	603,314	438,801
From Federal Sources	213,969	165,507
Total	817,283	604,308
TOTAL PROGRAM EXPENDITURES	$1,269,779	$1,030,702
GENERAL FUND		
Budgeted	$ 128,568	$ 133,781
Actual	125,803	131,169
Unspent Budget Authority	$ 2,765	$ 2,612
SPECIAL REVENUE FUND		
Budgeted	$1,303,860	$1,709,584
Actual	1,143,976	899,533
Unspent Budget Authority	$ 159,884	$ 810,051[1]

[1] See note 6 on page 15.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 13 through 15.

1. Summary of Significant Accounting Policies

Basis of Accounting

The council uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental Funds. In applying the modified accrual basis, the council records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the council incurs the related liability and it is measurable.

Expenditures may include entire budgeted service contracts even though the council received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

State accounting policy also requires the council to record the cost of employees' annual leave and sick leave when used or paid.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustment. Accounts are organized on the basis of funds according to state law. The council uses the following funds:

Governmental Funds

General - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Council Special Revenue Funds include grants from the National Endowment for the Arts and the state Coal Tax Parks Acquisition Trust Fund moneys.

2. Annual and Sick Leave

Employees at the council accumulate both annual and sick leave. Employees are paid for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in the accompanying financial schedules. Expenditures for termination pay currently are absorbed in the annual operational costs of the council. The council had a combined leave liability of $29,436 and $35,444 at June 30, 1990 and 1991, respectively.

3. Pension Plan

Employees are covered by the Montana Public Employees' Retirement System (PERS). The council's contribution to PERS was $11,021 in fiscal year 1990 and $12,577 in fiscal year 1991.

4. General Fund Balance

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency schedule, the General Fund beginning and ending fund balance will always be zero.

5. Special Revenue Fund - Negative Fund Balance and Direct Entries to Fund Balance

A portion of the council's funding is from investment earnings on coal tax moneys. The Department of Revenue records the investment income on its accounting records and periodically transfers money to the council. The direct entries to fund balance in fiscal years 1989-90 and 1990-91 represent cash transferred to the council from the Department of Revenue for fiscal years 1988-89 and 1989-90. Because the council does not record the transfers on its accounting records until after the end of the fiscal year the transfers relate to, there is a negative fund balance in the Special Revenue Fund at the end of each fiscal year.

6. Special Revenue Fund - Budgeted Expenditures

The council receives a biennial appropriation for the coal tax money it receives. The council expends the money throughout the two-year period. Approximately one third of the appropriation is spent in the first year of the biennium, and the remaining two thirds is spent in the second year. Consequently, grant expenditures from state sources in fiscal year 1989-90 are approximately half the amount reported in fiscal year 1990-91. This results in the budgeted amount in the Special Revenue Fund being high in relation to actual expenditures on the fiscal year 1989-90 Schedule of Budgeted Program Expenditures.

Agency Response

MONTANA ARTS COUNCIL

STAN STEPHENS, GOVERNOR

48 NORTH LAST CHANCE GULCH
NEW YORK BLOCK

STATE OF MONTANA

(406) 444-6430

HELENA, MONTANA 59620

Date: May 5, 1992

To: Scott Seacat
Legislative Auditor

From: David Nelson
Executive Director

RE: Review of audit recommendations and agency response

Enclosed find our position, contemplated corrective action and timetable for implementation on each recommendation.

Recommendation #1
We recommend the council review its indirect cost proposal and ensure the recovery of indirect costs to the maximum extent possible as required by state law.

Agency position: We concur.

Contemplated corrective action: When the next indirect cost proposal is submitted to the National Endowment for the Arts, it will include the audit costs for that year as an indirect cost.

Timetable for implementation: Fiscal year end 1992.

Recommendation #2
We recommend the council record its operating plan on SBAS in compliance with state law.

Agency position: We concur.

Contemplated corrective action: We will record our operating plan on SBAS in compliance with state law.

Timetable for implementation: Fiscal year end 1992.

Recommendation #3
We recommend the council properly record all operating expenditures in compliance with state policy.

Agency position: We concur.

Contemplated corrective action: The council will record all expenditures which are not payments of grants to other entities as operating expenditures. We will also take action during the upcoming budget process to have those expenditures budgeted as operating, rather than grant, expenditures.

Timetable for implementation: We will correct all FY 1992 expenditures by fiscal year end 1992 to assure the base will be accurate for proper budgeting of the next biennium. We will work with the Governor's budget office and Legislative Fiscal Analyst to assure correct handling of these items.

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